

placed on the amount of a deduction provided under section 809, the limitation shall apply to the item of deduction computed on an annualized basis.

(ii) For purposes of sections 809 and 810, the investment yield shall be determined in the manner provided in subparagraph (2)(ii) of this paragraph. The share of any item of investment yield set aside for policyholders shall be that percentage obtained by dividing the required interest as determined under section 809(a)(2), by the investment yield, as determined in this subparagraph, except that if the required interest exceeds the investment yield then the share of any item of investment yield set aside for policyholders shall be 100 percent.

(iii) The items of gross amount and the items of deduction, other than the operations loss deduction under section 809(d)(4), shall be determined on an annual basis. See subdivision (iv) of this subparagraph for the manner in which the net decrease or net increase in reserves under section 810 shall be annualized.

(iv) For purposes of determining either a net decrease in reserves under section 810(a) or a net increase in reserves under section 810(b), the sum of the items described in section 810(c) as of the end of the short period shall be reduced by the amount of the investment yield not included in gain or loss from operations for the short period by reason of section 809(a)(1). The amount of investment yield excluded under section 809(a)(1) has been determined upon an annualized basis while the sum of the items described in section 180(c) at the end of the short period has been determined on an actual basis. In order to place these on the same basis, the amount of investment yield not included in gain or loss from operations by reason of section 809(a)(1), determined under subdivision (ii) shall, for purposes of section 810(a) and section 810(b), be reduced to an amount which bears the same ratio to the full amount as the number of days in the short period bears to the number of days in the entire calendar year. The net decrease or the net increase of the items referred to in section 810(c) for the short period shall then be determined, as provided in section 810(a) and section

810(b), respectively, and the result annualized.

(4) The portion of the life insurance company taxable income described in section 802(b) (1) and (2) (relating to taxable investment income and gain or loss from operations) shall be determined on an annual basis by treating the amounts ascertained under subparagraph (2) of this paragraph as the taxable investment income, and the amount ascertained under subparagraph (3) of this paragraph as the gain or loss from operations, for the taxable year.

(5) The portion of the life insurance company taxable income described in section 802(b) (1) and (2) for the short period shall be the amount which bears the same ratio to the amount ascertained under section 818(d) (2) and subparagraph (4) of this paragraph as the number of days in the short period bears to the number of days in the entire year.

(d) *Special rules.* (1) For purposes of determining the average earnings rate (as defined in section 805(b)(3)) for subsequent taxable years, the current earnings rate for the taxable year in which the short period occurs shall be the rate determined under paragraph (c)(2) of this section.

(2) For purposes of determining an operations loss deduction under section 812, the loss from operations for the short period shall be the loss from operations determined under paragraph (c)(5) of this section.

[T.D. 6558, 26 FR 2788, Apr. 4, 1961]

§ 1.818-6 Transitional rule for change in method of accounting.

(a) *In general.* Section 818(e) prescribes the rules to be followed in recomputing the taxes of a life insurance company for the taxable year 1957 in cases where the method of accounting required to be used in computing the company's taxes for 1958 under section 818(a) and paragraph (a) of § 1.818-2 is different from the method used in 1957.

(b) *Recomputation of 1957 taxes.* (1) For purposes of recomputing its taxes for 1957, a life insurance company must ascertain the net amount of those adjustments which are determined (as of the close of 1957) to be necessary solely by reason of the change to the method of

accounting required by section 818(a) and paragraph (a) of § 1.818-2 in order to prevent amounts from being duplicated or omitted. Thus, for example, life insurance companies not on the accrual method of accounting for the year 1957 shall accrue, as of December 31, 1957, those items of gross investment income under section 803(b) and those items of deduction under section 803(c), as in effect for 1957, which would have been properly accruable for the year 1957 if the company had been on the accrual method of accounting.

(2) In the case of a change in the over-all method of accounting, the term “net amount of those adjustments” means the consolidation of adjustments (whether the amounts thereof represent increases or decreases in items of income or deductions) arising with respect to balances in the various accounts on December 31, 1957. In the case of a change in the treatment of a single material item, the amount of the adjustment shall be determined with reference only to the net dollar balances in that particular account.

(3)(i) The amount of the taxpayer's tax for 1957 shall be recomputed (under the law applicable to 1957, modified as provided in section 818(e) (4) and paragraph (e) of this section) by taking into account an amount equal to one-tenth of the net amount of the adjustments determined under subparagraph (1) of this paragraph. The increase or decrease in tax attributable to the adjustments for such year is the difference between the tax for such year computed with the allocation of one-tenth of the net amount of the adjustments to such taxable year over the tax computed without the allocation of any part of the adjustments to such year.

(ii) The amount of increase or decrease (as the case may be) referred to in section 818(e) (2) or (3) and paragraphs (c) or (d) of this section, shall be the amount of the increase or decrease in tax ascertained in the manner described in subdivision (i) of this subparagraph, multiplied by 10.

(c) *Treatment of decrease.* Section 818(e) (2) provides that for purposes of subtitle F of the Code, if the recomputation under paragraph (b) (3) (ii) of this section results in a decrease, the

amount of such decrease shall be treated as a decrease in the tax imposed for 1957; except that for purposes of computing the period of limitation on the making of refunds or the allowance of credits with respect to such overpayments, the amount of such decrease shall be treated as an overpayment of tax for 1959. No interest shall be paid, for any period before March 16, 1960, on any overpayment of the tax imposed for 1957 which is attributable to such decrease.

(d) *Treatment of increase—*(1) *In general.* Section 818(e) (3) (A) provides that for purposes of subtitle F of the Code, other than section 6016 (relating to declarations of estimated income tax by corporations) and section 6655 (relating to failure by corporations to pay estimated income tax), if the recomputation under paragraph (b) (3) (ii) of this section results in an increase, the amount of such increase shall be treated as a tax imposed for 1959. Such tax shall be payable in 10 equal annual installments, beginning with March 15, 1960.

(2) *Special rules.* Section 818(e) (3) (B) provides that for purposes of section 818(e) (3) (A) and subparagraph (1) of this paragraph:

(i) No interest shall be paid on any installment described in section 818(e) (3) (A) and subparagraph (1) of this paragraph before the time prescribed therein for the payment of such installment.

(ii) Section 6152(c) (relating to proration of deficiencies to installments) and the regulations thereunder shall apply. However, section 6152(a) (relating to the election to make installment payments) and the regulations thereunder shall not apply.

(iii) In applying section 6502(a) (1) (relating to collection after assessment) and the regulations thereunder, the assessment of any installment described in section 818(e) (3) (A) and subparagraph (1) of this paragraph shall be treated as made at the time prescribed therein for the payment of such installment.

(iv) If for any taxable year the taxpayer is not a life insurance company, the amount of the increase in tax (as determined under paragraph (b) (3) (ii) of this section), to the extent not

taken into account for prior taxable years, shall be payable on the date the return for such taxable year is due (determined without regard to any extensions of time for filing such return), unless such amount is required to be taken into account by the acquiring corporation under section 381(c) (22) and the regulations thereunder.

(e) *Modifications of 1957 tax computation.* Section 818(e) (4) provides that in recomputing the taxpayer's tax for 1957 for purposes of section 818(e) (1) and paragraph (b) of this section:

(1) Section 804(b), as in effect for 1957 (relating to the maximum reserve and other policy liability deduction), shall not apply with respect to any amount required to be taken into account by reason of section 818(e) (1) and paragraph (b) of this section; and

(2) The amount of the deduction allowed by section 805, as in effect for 1957 (relating to the special interest deduction), shall not be reduced by reason of any amount required to be taken into account under section 818(e) (1) and paragraph (b) of this section.

(f) *Illustration of principles.* The application of section 818(e) and this section may be illustrated by the following examples:

Example 1. For the taxable year 1957, the life insurance taxable income of M, a life insurance company, is \$200,000 computed on the cash receipts and disbursements method of accounting. The net amount of the adjustments required under section 818(e)(1) by reason of the change to the accrual method of accounting for 1958, increases M's life insurance taxable income for 1957 by \$50,000. The increase in tax attributable to the change in method of accounting required by section 818(a) is \$26,000, computed as follows:

(1) Life insurance taxable income before adjustments	\$200,000
(2) Adjustments required by sec. 818(e) (1) (1/10×\$50,000)	5,000
(3) Life insurance taxable income after adjustments (item (1) plus item (2))	205,000
(4) Tax liability after adjustments (52%×\$205,000, minus \$5,500)	101,100
(5) Tax liability before adjustments (52%×\$200,000, minus \$5,500)	98,500
(6) Excess of item (4) over item (5)	2,600
(7) Increase in tax for purposes of sec. 818(e) (3) (item (6) multiplied by 10)	26,000

Under the provisions of section 818(e)(3), one-tenth of the increase in tax for 1957 attributable to the change in method of accounting required by section 818(a), \$2,600 (1/10×\$26,000), was due and payable on March 15, 1960, and the balance, \$23,400 (9/10×\$26,000), is

due and payable in equal installments on March 15th of the nine succeeding taxable years. However, if for the taxable year 1965, M is no longer a life insurance company, and section 381(c)(22) does not apply, the balance of the installments not paid in prior taxable years, \$10,400 (4/10×\$26,000), shall be due and payable on March 15, 1966.

Example 2. Assume the facts are the same as in example 1, except that the net amount of the adjustments required by section 818(e)(1) decreases M's life insurance taxable income for 1957 by \$25,000. The decrease in tax attributable to the change in method of accounting required by section 818(a) is \$13,000, computed as follows:

(1) Life insurance taxable income before adjustments	\$200,000
(2) Adjustments required by sec. 818(e) (1) (1/10×\$25,000)	2,500
(3) Life insurance taxable income after adjustments (item (1) minus item (2))	197,500
(4) Tax liability after adjustments (52%×\$197,500, minus \$5,500)	97,200
(5) Tax liability before adjustments (52%×\$200,000, minus \$5,500)	98,500
(6) Excess of item (5) over item (4)	1,300
(7) Decrease in tax for purposes of sec. 818(e)(2) (item (6) multiplied by 10)	13,000

Under the provisions of section 818(e)(2), the entire \$13,000 decrease in tax for 1957 attributable to the change in method of accounting required by section 818(a) shall be treated as an overpayment of tax for the taxable year 1959.

[T.D. 6558, 26 FR 2789, Apr. 4, 1961]

§ 1.818-7 Denial of double deductions.

Section 818(f) provides that the same item may not be deducted more than once under subpart B, part I, subchapter L, chapter 1 of the Code (relating to the determination of taxable investment income), and more than once under subpart C, part I, subchapter L, chapter 1 of the Code (relating to the determination of gain or loss from operations).

[T.D. 6558, 26 FR 2790, Apr. 4, 1961]

§ 1.818-8 Special rules relating to consolidated returns and certain capital losses.

Section 818(g) provides that, in the case of a life insurance company filing or required to file a consolidated return under section 1501 for a taxable year, the computations of the policyholders' share of investment yield under subparts B and C, part I, subchapter L, chapter 1 of the Code (including all determinations and computations incident thereto) shall be